

Message Text

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ACTION NEA-10

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E.O. 11652: N/A
TAGS: EFIN, IN
SUBJECT: GOVERNMENT GOLD SALES

REF: NEW DELHI A-56

1. SUMMARY: RESERVE BANK OF INDIA (RBI) WILL BEGIN SALES
OF NON-MONETARY STOCKS OF GOVERNMENT-HELD GOLD ON MAY 3
IN AN ATTEMPT TO BRING DOWN DOMESTIC GOLD PRICES, REDUCE
SMUGGLING AND INCREASE GOVERNMENT REVENUE. END SUMMARY.

2. DEPUTY RBI GOVERNOR RAMAKRISHNAYYA ANNOUNCED APRIL 22
THAT THE RBI WILL START SELLING GOLD ON MAY 3 IN PURSUANCE
OF DECISION ANNOUNCED BY FINANCE MINISTER PATEL IN HIS
RECENT BUDGET SPEECH (REFAIR). SALES WILL BE HELD EVERY
TWO WEEKS FOR THREE MONTHS UP TO LATE JULY. AUCTIONS WILL
BE ON THE BASIS OF SEALED TENDERS FROM ABOUT 10,000
LICENSED GOLD DEALERS PLUS GOLDSMITHS IN COOPERATIVE
SOCIETIES. BIDS (ONLY ONE FOR EACH BIDDER) HAVE TO
BE FOR A MINIMUM OF 1,000 GRAMS AND A MAXIMUM OF
5,000 GRAMS IN MULTIPLES OF 100 GRAMS. EACH BIDDER
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MUST SUBMIT A DEPOSIT EQUAL TO TEN PERCENT OF THE
TOTAL VALUE OF THE BID. AWARDS WILL BE MADE TO BIDDERS
WHO RANK ABOVE THE QUANTITATIVE POSITION DETERMINED
BY THE RBI AND THE RESERVE PRICE FOR EACH PARTICULAR
AUCTION. THE AWARD WILL BE FOR THE QUANTITY BID AT
THE PRICE QUOTED. SUCCESSFUL BIDDERS WILL HAVE TO PAY
A SALES TAX. GOLD WILL BE SOLD IN BARS OF 100 GRAMS

WITH .995 FINENESS AND WILL BE ON AN "AS IS" BASIS
WITH NO WARRANTY GUARANTEE FROM THE RBI. NO PRIOR
PHYSICAL INSPECTION WILL BE ALLOWED. GOLD WILL BE
DELIVERED ONLY IN BOMBAY.

3. RAMAKRISHNAYYA REFUSED TO DISCLOSE THE QUANTITY
OF GOLD TO BE SOLD IN THE MAY 3 AUCTION OR SUBSE-
QUENTLY, THE AMOUNT OF GOLD IN GOVERNMENT STOCKS, OR
THE RESERVE PRICE. HE STATED, HOWEVER, THAT THE QUANTITY
OF GOLD MAY VARY AT EACH AUCTION ACCORDING TO CIR-
CUMSTANCES. HE SAID THAT THE SCHEME TO IMPORT GOLD
AND SELL IT TO DOMESTIC JEWELERS AT INTERNATIONAL
PRICES TO ENCOURAGE INDIAN EXPORTS OF GOLD JEWELRY
WAS STILL BEING WORKED OUT.

4. COMMENT: THE PROPOSED GOLD SALE FOLLOWS THE GENERAL
FORMAT OF THE IMF AUCTIONS. THE MAJOR PURPOSES OF THE
RBI SALES ARE TO BRING DOWN THE DOMESTIC PRICE OF
GOLD, REDUCE GOLD SMUGGLING AND PROVIDE SOME REVENUE
TO THE GOI. LOCAL GOLD PRICES HAD BEGUN TO COME DOWN
LAST WEEK IN ANTICIPATION OF THE RBI ANNOUNCEMENT AND
HAD DECLINED FURTHER BY AROUND EIGHT PERCENT SINCE
APRIL 22. TRADE REACTION HAS BEEN GENERALLY FAVORABLE.
THE LEADERSHIP OF THE BOMBAY BULLION ASSOCIATION WEL-
COMED THE SALE OF GOLD TO LICENSED DEALERS BECAUSE
THE GOI COULD KEEP BETTER TRACK OF IT. SOME TRADERS
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THOUGHT THAT THE GOLD SALES WOULD ONLY KEEP DOWN GOLD
PRICES TEMPORARILY AND THAT IMPORT OF GOLD WOULD HAVE
A MORE PERMANENT EFFECT. IT REMAINS TO BE SEEN HOW
WELL THE GOI OBJECTIVES WILL BE FULFILLED.
GOHEEN

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